

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

EAST TAWAS HOUSING COMMISSION

Financial Statements

December 31, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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John C. DiPiero, P.C.
Certified Public Accountant

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Board of Commissioners
East Tawas Housing Commission
304 West Bay Street
East Tawas, Michigan 48730

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the East Tawas Housing Commission as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Tawas Housing Commission as of December 31, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

July 13, 2005

This discussion and analysis of the East Tawas Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded and received the following Federal Assistance:

	<u>Year 2004</u>	<u>Year 2004</u>
Operating Subsidies	\$ 38,032	\$ 29,929
Capital Projects Funds	34,241	13,937
Section 8 New Construction	162,609	174,188

Comparison of the current year to the past and discussion of significant changes as follows:

	<u>Year 2004</u>	<u>Year 2003</u>	<u>Net Change</u>
Cash & cash equivalents	\$ 50,755	\$ 31,309	19,446
Accounts Receivable	6,681	10,871	(4,190)
Investments			
(Restricted/Unrestricted)	37,634	35,386	2,248
Fixed Assets, prior to Depreciation	3,128,190	3,090,749	51,385
Total Liabilities	685,406	771,281	(85,875)
Net Assets	1,055,761	1,020,328	35,433

	<u>Year 2004</u>	<u>Year 2003</u>	<u>Net Change</u>
Revenues:			
Tenant Revenues	245,486	234,795	10,691
HUD Grants	234,882	218,054	16,828
Expenses:			
Administrative	100,690	91,228	9,462
Tenant Services	1,358	4,019	(2,661)
Utilities	79,123	82,402	(5,897)
Maintenance & Operations	95,997	99,105	(3,108)
General Expenses	39,391	68,689	(29,298)
Depreciation Expense	99,898	85,812	14,086

The Commission's cash position increased during the year, our investments increased; our fixed assets before depreciation increased, total liabilities decreased, and Net Assets increased. HUD grants increased, general expenses decreased, depreciation increased, other expenses had unremarkable dollar changes.

We increased our cash position and decreased our liabilities as a result of a net profit before depreciation of \$ 135,331. (Cash increased \$ 19,446 and decreased liabilities by \$ 85,875). Our fixed assets before depreciation increased \$ 51,385 as a result of completing the door way entrance and floor replacement funded by the 2003 Capital Fund Program. Net Assets increased by the Net Profit amount of \$ 35,433.

HUD grants are a result of requisitioning eligible funds. HUD grants received are a result of calculations under the Performance Funding System, and Capital grants authorized and obligated during the year.

In 2003 interest expense of \$ 37,549 was classified as a General Expense; in 2004 interest expense was reported as an Other Use, therefore the significant difference in the General Expenses above; depreciation expense increased due to the completion of the 2003 Capital Fund Program.

The Commission provided the following housing for low to moderately low income families:

	<u>Year 2004</u>	<u>Year 2003</u>
Low Rent Public Housing	41	41
Section 8 New Construction	44	44

General Fund Budgetary Highlights

The Commission approved an operating budget on April 20, 2004 for the fiscal year ending December 31, 2004; the budget was submitted early due to a request from HUD, normally our fiscal year budget would be approved 90 days before the year end, but due to funding difficulties HUD requested our fiscal 2004 budget be completed by early. The original budget was not amended for the fiscal year 2004. There were no significant differences between the amounts budgeted and the actual results.

Entity Wide Capital Assets

The fixed assets increased \$ 51,385 prior to depreciation. The additions included improvements to our entrance way door system and replacement of the entrance way floor. The total cost for the improvements were paid for out of our 2003 Capital Fund Program.

Commission's Position

The Commission has completed the 2003 Capital Fund Program and plans to use the 2004 and 2005 capital funds for kitchen cabinet replacements in the Low Rent Program dwelling units. Improvements to the Section 8 New Construction units will be funded out of replacement funds within that program.

We anticipate current funding levels for operations and capital improvements will remain consistent with past years; therefore, the Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income elderly families.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Janell Reed, Executive Director
304 W. Bay St.
East Tawas, Michigan 48730

EAST TAWAS HOUSING COMMISSION
Combined Statement of Net Assets
December 31, 2004

ASSETS

C-3087

CURRENT ASSETS

Cash	\$	50,755
Accounts Receivable		108
Accounts Receivable- Other		6,573
Investments		37,634
Prepaid Expenses		35,400
Inter Program due from		<u>43,417</u>

Total Current Assets	\$	173,887
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NON CURRENT ASSETS

Land	\$	205,892
Buildings		2,346,151
Furniture, Equipment- Dwellings		33,347
Furniture, Equipment- Administrative		50,091
Construction in Progress		492,709
Accumulated Depreciation		<u>(1,560,910)</u>

Total Non Current Assets		<u>1,567,280</u>
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<u>TOTAL ASSETS</u>	\$	<u>1,741,167</u>
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EAST TAWAS HOUSING COMMISSION
Combined Statements of Net Assets
December 31, 2004

LIABILITIES

C-3087

CURRENT LIABILITIES

Accounts Payable	\$	15,210	
Accrued Wages & Payroll Taxes		2,664	
Accrued Interest Payable		3,860	
Accrued Compensated Absences		5,598	
Accounts Payable-Other Governments		15,987	
Tenants Security Deposit		16,079	
Deferred Revenue		497	
Current Portion-Long Term Debt		105,000	
Inter-Program due to		<u>43,417</u>	
<u>Total Current Liabilities</u>	\$		208,312

NON CURRENT LIABILITIES

Long Term Debt, net of current portion	\$	465,000	
Accrued Compensation- non current		<u>12,094</u>	
<u>Total Non Current Liabilities</u>			<u>477,094</u>
<u>Total Liabilities</u>	\$		685,406

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	997,280	
Unrestricted Net Assets		<u>58,481</u>	
<u>Total Net Assets</u>			<u>1,055,761</u>
<u>TOTAL LIABILITIES & NET ASSETS</u>	\$		<u>1,741,167</u>

The Accompanying Notes are an Integral part of the Financial Statements

EAST TAWAS HOUSING COMMISSION
Combined Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended December 31, 2004

REVENUE

Tenant Rental Revenue	\$ 238,987	
Tenant Revenue-Other	2,081	
HUD Grants	234,882	
Interest Income	1,453	
Other Income	<u>2,965</u>	
<u>Total Revenue</u>		\$ 480,368

EXPENSES

Administrative	\$ 100,690	
Tenant Services	1,358	
Utility Expenses	79,123	
Ordinary Maintenance	95,997	
General Expenses	<u>39,391</u>	
<u>Total Expenses</u>		<u>316,559</u>

Excess (Deficiency) of Revenues over Expenses \$ 163,809

OTHER SOURCES & (USES)

Interest Expense	\$ (26,491)	
Casualty Losses-non capitalized	(1,987)	
Depreciation Expenses	<u>(99,898)</u>	
<u>Total Other Sources (Uses)</u>		<u>(128,376)</u>

Change in Net Assets \$ (35,433)

Total Net Assets- Beginning 1,091,194

Total Net Assets- Ending \$ 1,055,761

The Accompanying Notes are an Integral part of the Financial Statements

EAST TAWAS HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended December 31, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 240,960
Payments to Suppliers	(205,372)
Payments to Employees	(105,901)
HUD Grants	234,882
Other Receipts (Payments)	<u>4,418</u>

Net Cash Provided (Used) by Operating Activities	\$ <u>168,987</u>
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CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Principle paid on Debt	\$ (105,000)
Purchases of Capital Assets	<u>(44,541)</u>

Net Cash Provided (Used) by Capital and Related Financing Activities	\$ <u>(149,541)</u>
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Net Increase (Decrease) in Cash and Cash Equivalents	\$ 19,446
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Balance- Beginning of Year	<u>31,309</u>
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Balance- End of Year	\$ <u>50,755</u>
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RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 35,433
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	98,898
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	4,190
Investments	(2,248)
Prepaid Expenses	11,100
Interfund Due From	1,489
Changes in Liabilities Increase (Decrease):	
Accounts Payable	10,652
Accrued Liabilities	(7,605)
Compensated Absences	12,876
Security Deposits	628
Deferred Revenue	63
Current Portion-Long Term Debt	5,000
Interfund Due To	<u>(1,489)</u>

Net Cash Provided by Operating Activities	\$ <u>168,987</u>
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The Accompanying Notes are an Integral part of the Financial Statements

EAST TAWAS HOUSING COMMISSION
Notes to Financial Statements
December 31, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

East Tawas Housing Commission, East Tawas, Michigan, (Commission) was created by ordinance of the city of East Tawas. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 102-001	Low rent program	41 units
	New Construction	44 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principles (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided that they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements .

Notes to Financial Statements- continued

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

Notes to Financial Statements- continued

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$	640
Savings Accounts		49,915
Petty Cash		<u>200</u>
Financial Statement Total	\$	<u>50,755</u>

Investments:

Savings Accounts	\$	13,847
Certificates of Deposit		<u>23,787</u>
Financial Statement Total	\$	<u>37,634</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 640	\$	\$	\$ 640	\$ 640
Petty Cash	200			200	200
Savings Account	49,915			49,915	49,915
Total Cash	<u>\$ 50,755</u>	<u>\$</u>	<u>\$</u>	<u>\$ 50,755</u>	<u>\$ 50,755</u>

	Categories			Carrying Amount	Market Value
	1	2	3		
Investments:					
C of D's	\$ 23,787	\$	\$	\$ 23,787	\$ 23,787
Savings Account	13,847			13,847	13,847
Total Cash	<u>\$ 37,634</u>	<u>\$</u>	<u>\$</u>	<u>\$ 37,634</u>	<u>\$ 37,634</u>

Notes to Financial Statements- continued

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 205,892	\$	\$	\$ 205,892
Buildings	2,313,321	32,830		2,346,151
Furniture & Equipment-Dwellings	33,347			33,347
Furniture & Equipment-Admin	44,265	5,826		50,091
Leasehold Improvements	493,924	5,885	7,100	492,709
	<u>\$ 3,090,749</u>	<u>\$ 44,541</u>	<u>\$ 7,100</u>	<u>\$ 3,128,190</u>
Less Accumulated Depreciation	<u>1,468,112</u>	<u>99,898</u>	<u>7,100</u>	<u>1,560,910</u>
	<u>\$ 1,622,637</u>	<u>\$ (55,357)</u>	<u>\$ 0</u>	<u>\$ 1,567,280</u>

Note 4: Prepaid Expenses.

Prepaid Expenses consist of the following:

Unamortized Loan Origination Fees (Note 6)	\$ 35,400
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Note 5: Fixed Liabilities:

The financing of the Commission consists of the following:

Bonds	\$ 770,000
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1998 General Obligation Unlimited Tax Refunding Bonds (Section 8 Senior Citizens Housing), interest rate ranging between 3.65% to 4.15%, payable serially until 2009.

The following represents the annual principle & interest obligations:

	<u>Bonds Payable</u>
December 31, 2005	\$ 125,158
December 31, 2006	126,058
December 31, 2007	126,758
December 31, 2008	124,950
December 31, 2009	127,440
Thereafter	124,769

Due to the unique regulatory constraints of the debt it is impracticable to estimate the fair value of debt.

Notes to Financial Statements- continued

In addition to the aforementioned debt, a prepaid bond refinancing was charged to other assets; the charge is being written off using the straight line method at a rate of \$ 7,100 per year. The following represents the activity:

Prepaid bond refinancing paid at closing	\$ 90,000
Amortized prior to beginning of year	<u>(47,500)</u>
Balance at beginning of year	\$ 42,500
Annual Amortization	<u>(7,100)</u>
Balance at end of year	\$ <u>35,400</u>

Note 6: Pension Plan

The Commission participates in the City of East Tawas Defined Contribution Pension Plan. All eligible employees have 6% of their annual salary contributed to the plan by the Commission. Actuarial and statistical data are reported under a separate report prepared by the City.

Note 7: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 4,510,813
General Liability	1,000,000
Dishonesty Bond	3,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 8: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 9: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principles of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

EAST TAWAS HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2004

The prior audit of the East Tawas Housing Commission for the period ended December 31, 2003, did not contained any audit findings or questioned cost.

EAST TAWAS HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
<u>CFDA 14.850 Public and Indian Housing</u>	
C-3087 Operating Subsidies	\$ <u>38,032</u>
* <u>CFDA 14.182 N/C Section 8 Program</u>	
C-3087 Section 8 Assistance Payments	\$ <u>162,609</u>
<u>CFDA 14.872 Public Housing Capital Fund Program</u>	
C-3087 Capital Fund Program	\$ <u>34,241</u>
	\$ <u>234,882</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 4,510,813
General Liability	1,000,000
Dishonesty Bond	3,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

*Connotes Major Program Category

EAST TAWAS HOUSING COMMISSION
Report on Compliance with Requirements
Applicable to Each Major Program
and on Internal Control over Compliance in
Accordance with OMB Circular A-133
December 31, 2004

Compliance

I have audited the compliance of East Tawas Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2004. East Tawas Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of East Tawas Housing Commission's management. My responsibility is to express an opinion on East Tawas Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Tawas Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of East Tawas Housing Commission's compliance with those requirements.

In my opinion, East Tawas Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control over Compliance

The management of East Tawas Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered East Tawas Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

July 13, 2005

EAST TAWAS HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
December 31, 2004

I have audited the financial statements of East Tawas Housing Commission, East Tawas, Michigan, as of and for the year ended December 31, 2004, and have issued my report thereon dated July 13, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether East Tawas Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered East Tawas Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect East Tawas Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

July 13, 2005

EAST TAWAS HOUSING COMMISSION
Schedule of Findings and Questioned Cost
December 31, 2004

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Section 8 New Construction	X	
Capital Projects Funds		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	N/A
Section 8 Housing Vouchers	Yes	None	N/A
Capital Fund Project	No	None	N/A